



# General Assembly

Distr.: General  
16 August 1998

Original: English

## Fifty-third session

Item 74 (c) of the provisional agenda\*

**Review of the implementation of the recommendations and decisions  
adopted by the General Assembly at its tenth special session: Advisory  
Board on Disarmament Matters**

## Work of the Advisory Board on Disarmament Matters

### Report of the Secretary-General

#### I. Introduction

1. The present report to the General Assembly on the work of the thirtieth and thirty-first sessions of the Advisory Board on Disarmament Matters, held in Geneva from 16 to 18 March 1998 and in New York from 29 June to 1 July 1998, respectively, is submitted pursuant to Assembly resolution 38/183 O of 20 December 1983. The meetings were chaired by Mr. André Erdős, Permanent Representative of Hungary to the United Nations.

2. The Secretary-General met with the Board at its thirtieth session on 17 March 1998 to share his views on the priority concerns of the international community in the field of nuclear, conventional and regional disarmament, and on how the United Nations contributes to resolving them. The Secretary-General asked Board members for their reactions to the disarmament aspects of the reform programme and the restructuring of the Department. At that session, the Under-Secretary-General for Disarmament Affairs outlined the plans under way for the reorganization of the re-established Department for Disarmament Affairs.\*\*

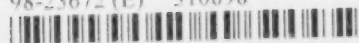
\* A/53/150.

\*\* The Department for Disarmament Affairs was re-established on 1 January 1998, and an organizational structure was promulgated in ST/SGB/1998/10 of 20 May 1998.

3. The Under-Secretary-General posed three questions to the Board at its thirty-first session: (a) what more can the Secretary-General or the United Nations do in the wake of the nuclear tests by India and Pakistan in May 1998?; (b) what can be done to help to ensure that the ground is better prepared for the third session of the Preparatory Committee in 1999 for the 2000 Review Conference of the States parties to the Treaty on the Non-Proliferation of Nuclear Weapons?; (c) what should be done to secure agreement on holding the fourth special session on disarmament in the light of the inability of the Disarmament Commission, after its third and final year of consideration, to reach agreement on its objectives and agenda? He also requested the Board to review its mandate and functioning with a view to improving its own effectiveness as an advisory body.

4. Also at its thirty-first session, on the basis of discussion papers presented by its members, the Board examined three topics of acute interest to multilateral disarmament efforts: a new agenda for disarmament, new technologies and their impact on disarmament, and the costs of disarmament.

5. As is customary, the Board met with representatives of the Special NGO Committee on Disarmament (Geneva) at its thirtieth session and of the NGO Committee on Disarmament (New York) at its thirty-first session.



6. Below are some of the salient points of the Board's deliberations on the above-mentioned items and some of the specific recommendations it relayed to the Secretary-General.

#### **A. Nuclear non-proliferation and disarmament, and other weapons of mass destruction**

7. *What more can the Secretary-General or the United Nations do in the wake of the nuclear tests by India and Pakistan?* The Board overwhelmingly believed – with a notable reservation by one member that the question should be addressed in the context of global nuclear disarmament – that the Secretary-General was pursuing the appropriate course with respect to the security situation in South Asia and encouraged him to continue consulting the States in the region and promoting a dialogue between India and Pakistan. Two members maintained that pressing India and Pakistan to halt their nuclear programmes through economic sanctions or other kinds of coercive measures would be ineffective. Many members stressed the importance of dealing with the nuclear issue as a part of the overall regional security issue. Some members also believed that a dialogue between India and China should be encouraged.

8. Most members held the view that in order for non-proliferation efforts in South Asia and elsewhere to be effective, there had to be much greater efforts on the part of the nuclear-weapon States to speed up the process of nuclear disarmament, with one member urging the Secretary-General to make more focused efforts to persuade nuclear-weapon States in that direction. Indeed, one member suggested that nuclear-weapon States could make the same commitment that India and Pakistan have made to keep their programmes "at the lowest possible levels". It was mentioned that the tests by India and Pakistan offered an opportunity to promote transparency of existing nuclear arsenals and doctrines. A number of members expressed the view that, whatever the international community did in response to the tests, it should not reward or be perceived as rewarding behaviour contrary to the non-proliferation norms subscribed to by the overwhelming majority of States. The Secretary-General was advised to continue to urge India and Pakistan to agree to negotiations in the Conference on Disarmament on a cut-off of fissile material and to encourage nuclear disarmament measures for the nuclear-weapon States, such as the de-alerting and demating of nuclear warheads and their delivery vehicles. Such measures could also be taken in South Asia.

9. Members stressed that it would be appropriate for the Secretary-General, as depositary of the Comprehensive Nuclear-Test-Ban Treaty, to explore the modalities for India and Pakistan to adhere to it. Several members noted that both countries might be urged to turn their current de facto moratoriums on testing into a legal prohibition by adhering to the Treaty and that, if they did so before the Conference of States parties to the Treaty in 1999, they could participate fully in that meeting. It was also crucial that the three nuclear-weapon States that had not yet ratified the Treaty set a positive example. The issue of halting subcritical tests as an incentive for countries to join the Treaty was also raised by some members.

10. Members acknowledged that the international community faced acute difficulties over the relationship between India, Pakistan and the Treaty on the Non-Proliferation of Nuclear Weapons. On the one hand, States parties to the Treaty do not wish to recognize the two countries as nuclear-weapon States, as this would undermine the assumption upon which the Treaty and the existing non-proliferation regime is based, namely that there would and should be no further nuclear-weapon States. On the other hand, urging them to accede to the Treaty as non-nuclear-weapon States is currently unrealistic, as, *inter alia*, the perceptions of India and Pakistan that the Treaty is discriminatory have not changed.

11. Some members stressed that the nuclear tests by India and Pakistan would have repercussions on security in the Middle East and that the United Nations should be attentive to the situation in that region.

12. It was suggested that the United Nations could play a role in the framework of the regular meeting of the "Kathmandu process" (a function of the United Nations Regional Centre for Peace and Disarmament in Asia and the Pacific) in 1999 in an effort to find ways to build regional confidence and reduce nuclear risks. It was also pointed out that the Association of South East Asian Nations could play a useful role.

13. *How can the Secretary-General help to ensure that the ground is better prepared for the third session of the Preparatory Committee, in 1999, for the 2000 Review Conference of the Parties to the Non-Proliferation Treaty?* Concerned about the acute challenge facing the Treaty because of the nuclear testing in South Asia and the failure of the Preparatory Committee to reach any agreement at its second session, members emphasized that the current stalemate in nuclear disarmament efforts needed to be "jump-started" in some way. They recognized that progress had been made in nuclear disarmament since the end of the

cold war, with some noting what had been accomplished and others pointing to the extreme dangers still facing the international community. In order to break the deadlock, one member suggested the convening of an international conference devoted solely to the issue of nuclear disarmament. Other members, however, felt that the issue of nuclear disarmament could not be dealt with in isolation.

14. Several suggestions were made about what the Secretary-General could do to strengthen the preparatory process: as a first priority, underlining on appropriate occasions that the processes of nuclear disarmament and of nuclear non-proliferation must run in parallel and stressing, in contacts with the five permanent members of the Security Council, the urgent need to keep the nuclear disarmament agenda moving in order to reinforce the non-proliferation regime.

15. The Secretary-General was also advised (a) to underline at every appropriate opportunity that the nuclear-weapon States need to take seriously the strongly held view that the resolution on the Middle East is an integral part of the package agreed to at the 1995 Review and Extension Conference of the Non-Proliferation Treaty; (b) to stress the importance of implementing all the elements of the decision adopted on principles and objectives for nuclear non-proliferation and disarmament, notably the granting of negative security assurances to non-nuclear-weapon States in a legally binding form and the creation of new nuclear-weapon-free zones; and (c) to point out that all States need to work towards commencing at an early date negotiations on a cut-off of the production of fissile material for weapons purposes.

16. It was pointed out that the Non-Proliferation Treaty contained no provisions to enable its States parties to hold discussions rapidly on situations threatening the nuclear non-proliferation regime. Consequently, it was suggested that the Secretary-General consult the depositaries with a view to including this matter in the agenda of a future meeting of the parties. It was also proposed that the United Nations could facilitate consultations among the parties prior to the third session of the Preparatory Committee for the 2000 Review Conference so that solutions for disagreements such as those that arose at the second session could be worked out beforehand.

17. In discussions related more generally to weapons of mass destruction, the Board emphasized the importance of the role of the United Nations in consolidating existing disarmament regimes and in helping to universalize them. Special mention was made of the strengthening of the Non-Proliferation Treaty, the Comprehensive Nuclear-Test-Ban

Treaty, the Chemical Weapons Convention and the Biological Weapons Convention regimes. Other issues to which the Board considered the United Nations should pay more attention included the burgeoning costs of disarmament and conversion; activities related to the handling of large quantities of plutonium and other fissile materials being released from dismantled nuclear weapons and civilian reactors; limiting, controlling and removing tactical nuclear weapons from the territory of non-nuclear-weapon States, the narrowing gap between the effects of weapons of mass destruction and increasingly lethal conventional weapons; and the problematic dual-use technologies, such as space satellites and communications and computer systems.

## **B. Conventional disarmament, in particular practical disarmament measures and small arms**

18. While part of the discussions of the Board was devoted to the new dangers emerging in the global security environment as a result of policies and practices adopted recently in respect of conventional weapons and to the worrisome accumulation of conventional weapons that could ultimately escalate into a nuclear conflict, most of the discussion revolved around the great potential that the Board sensed was developing for the United Nations to catalyze national and international efforts to control the proliferation of small arms and to assist in post-conflict peace consolidation in the areas of disarmament, demobilization and re-integration of former combatants.

19. At the thirtieth session, the United Nations Institute for Disarmament Research (UNIDIR) organized a discussion on the subject of small arms. The Chairman of the Panel of Governmental Experts on Small Arms, Mr. Mitsuro Donowaki, pointed to the need to disseminate the report of the Panel (A/52/298 of 27 August 1997) widely to policy makers, government officials, researchers and the public. He stressed the need to raise further awareness that, though most current conflicts may be of an internal nature, the market for small arms is global, and curbing excessive small arms proliferation needs a global response.

20. At the thirty-first session, Mr. Donowaki, who is also the Chairman of the Panel of Governmental Experts following up the recommendations of the 1997 report to the General Assembly, underlined that the recommendation to convene an international conference on illicit trafficking in small arms in the year 2000, which Switzerland had offered to host, was gaining a good deal of support. It was suggested

that the Board might form a subgroup to advise the Secretary-General during the lead-up to that conference.

21. The Deputy Director of UNIDIR, who is coordinating the study group on ammunition and explosives, emphasized that the use and trade of small arms were supported by massive transfers of ammunition. Two senior researchers of the Institute sketched out the possibilities of greater control of illicit trafficking in West Africa and Latin America. The Board strongly supported the Mali initiative for a moratorium on cross-border arms flows in western Africa and the efforts being exerted by various United Nations bodies to promote it, and it encouraged further dialogue between countries in the region and some of the supplier countries.

22. A member stressed that United Nations assistance in the establishment of a moratorium on small arms transfers in western Africa was critical to its success and should be ensured in the follow-up implementation process as well. A call was reiterated for the United Nations to sponsor an international conference of donors and recipient countries to give full effect to the moratorium once it was announced. It was also proposed that UNIDIR do further research about the possibility of extending the moratorium to eastern Africa and introducing similar arrangements in Central America.

23. The general view of the Board was that, global attention notwithstanding, the solutions to the problem of the excessive licit and illicit flow of small arms lay at the regional or subregional levels, and that greater transparency in licit trade in small arms was required on the part of both supplier and recipient countries. In that framework, the United Nations could serve as a catalyst and promoter of greater regional and subregional cooperation in integrating security and development. The need for the harmonization of national legislation to that effect was underlined by some members. It was suggested that the United Nations could develop an informal list of areas in special situations that could benefit from such assistance.

24. The Board welcomed the initiative announced in June 1998 for the coordinating action on small arms, as it highlighted the link between security/disarmament and development and met the need for coordination in the United Nations with respect to small arms. The closer coordination envisaged with the United Nations Development Programme was highly appreciated, and it was suggested that UNIDIR be more closely involved in the coordinating action on small arms initiative.

25. A suggestion was made that the United Nations could attempt to establish modes of communication with international companies, for example, to establish mutually

agreed-upon guidelines on arms transfers, similar to those through which chemical manufacturers were consulted and their views taken into consideration during the negotiations on the Chemical Weapons Convention in the Conference on Disarmament.

### C. The fourth special session on disarmament

26. *What should be done to secure agreement on holding the fourth special session on disarmament in the light of the inability of the Disarmament Commission, after its third and final year of consideration, to reach agreement on its objectives and agenda?* It was noted that the call for the convening of the session was a response to the current stalemate in the nuclear disarmament field. In fact, some members held the view that the tests by India and Pakistan highlighted the need for the session. The Board was not as divided as in previous sessions concerning the convening of the session. Even those with reservations in the past took the view that there was a strong need for the international community to reassess the situation in disarmament – for a new vision of the priorities, objectives and institutional arrangements for multilateral disarmament. It felt that the session could serve to begin, if not necessarily conclude, that debate. That should not, however, conceal continuing disagreements among Board members on the objectives and agenda of the session.

27. In a related matter, the Board was informed of the proposal by President Hosni Mubarak of Egypt, made soon after the tests on the subcontinent, to convene a conference to explore ways to achieve a world free of all weapons of mass destruction in phases over a 20-year time-frame. Some members thought that such a conference might be one way out of the stalemate in convening a new special session on disarmament as well as in negotiating nuclear disarmament in the Conference on Disarmament. In this context, another member recalled the Programme for Disarmament presented by Prime Minister Rajiv Gandhi of India at the third special session on disarmament in 1988.

### D. Re-establishment and reorganization of the Department for Disarmament Affairs

28. There was great satisfaction expressed by the Board at the re-establishment of the Department for Disarmament Affairs, as it reaffirmed the centrality of the United Nations in the pursuit of global disarmament and security. However,

it was also noted that, to be effective, the Department would have to be allocated more human and material resources.

29. The Board commended the plans to structure the Department into five branches dealing with weapons of mass destruction; conventional arms; regional disarmament; monitoring, database and information; and the Geneva disarmament branch. It welcomed the reactivation of the United Nations regional activities, particularly in Africa and Latin America and the Caribbean. In its view, favourable conditions exist for regional disarmament and conflict resolution initiatives. The Board held the view that every effort should be made by Member States to encourage and support such initiatives.

30. As to machinery, the general view of the Board was that the overall architecture of multilateral disarmament machinery was basically sound. The underpinning concept – a process leading from the mobilization of world attention by the adoption of resolutions, through more focused debate on specific issues, to the eventual negotiation of treaties in the multilateral negotiating body – remained valid. Its functioning could, however, be made more effective, though related changes might need to be revalidated by the fourth special session on disarmament. No member questioned the value of the Conference on Disarmament as the primary tool of the international community for the negotiation of disarmament agreements. It was stressed, however, that the deadlock in the Conference was due to a crisis in confidence or lack of trust. Some members held the view that the stalemate did not come from the structure or methods of the Conference but was due to the current overall strategic relationship among major countries. Others pointed to the manner in which disarmament-related treaties, such as the Non-Proliferation Treaty and the Comprehensive Nuclear-Test-Ban Treaty, had been negotiated and brought forward for signature, which they said fostered a climate of mistrust.

### **E. New agenda for disarmament**

31. The item entitled "New agenda for disarmament" was considered by the Board at its thirty-first session in order to advise the Secretary-General on future weapons-related threats and action that could be taken to prevent them. A discussion paper on the subject, prepared by one of the members, recommended the development of a long-term multidimensional strategy to achieve a sustainable nuclear-weapon-free world, which would take into account the full complexity of the issues and require the cooperation of the nuclear-weapon States. It also called for a short-term strategy that would focus on consolidating existing

agreements and actions to reduce nuclear-weapon stockpiles, implementing measures to reduce the risks of inadvertent nuclear war, and dividing the elements of the multidimensional strategy into a number of phases, with indicative time periods for completion.

32. Several members pointed out that the "new agenda" should encompass other weapons of mass destruction and all aspects of conventional weapons as well. Other issues raised were the control and elimination of substrategic, tactical nuclear weapons; strategies to handle the risks of accidental or unauthorized use of nuclear materials; the growing technological asymmetry among the five permanent members of the Security Council, with adverse consequences for international security, such as in the field of anti-ballistic missile defence, and the creation of a culture of non-proliferation and disarmament through education. It was only possible to begin a debate on these issues, and the Board agreed to keep this item on its agenda.

### **F. New technologies and their impact on disarmament**

33. The Board recognized the threat posed by rapid technological innovation in future warfare and was keen on pursuing some of the consequent policy implications for the United Nations system. A discussion paper on the subject, prepared by one of the members, described some of those aspects through the examples of information warfare, the use of satellite technology, and laser technology as applied to defence research. It was suggested that five main questions needed to be addressed: Who are the actors? What are the potential new weapons? What form will warfare take? What are the targets? What will be the mechanisms for controlling the development of new technologies for warfare and mitigating their effects?

34. The Board decided that it should continue to be seized of this item. It was also proposed that UNIDIR conduct research in conjunction with existing non-United Nations expert groups. In addition, it was suggested that the issue be addressed at the fourth special session on disarmament and that, at a later stage, the General Assembly consider the establishment of a special group of governmental experts to conduct an in-depth study on the impact of new technologies on disarmament.

## G. Costs of disarmament

35. A discussion was held on the issue of the costs of disarmament, particularly in connection with the implementation of obligations incurred through agreements, conventions and treaties. A discussion paper on the subject, presented by one of the members, highlighted the serious difficulties faced by certain States and by the international community with respect to funding elaborate verification mechanisms, to fulfilling cost-intensive treaty obligations and to ensuring membership in relevant international organizations. It cited the example of the Russian Federation's challenges in dismantling conventional weapons under the Treaty on Conventional Armed Forces in Europe, in disassembling strategic nuclear weapons and in disposing of fissile material under the START Treaty, as well as in destroying stocks of chemical weapons agents under the Chemical Weapons Convention.

36. The discussion that ensued demonstrated that the issue was considered important for the viability of existing arms control agreements and for the negotiation of future agreements. The views expressed by members, however, reflected the divide in the world community between donor and recipient countries. In this connection, some members emphasized that the United Nations and the international community should limit their responsibility to making appeals for support from donor countries and to calling upon States parties to disarmament treaties for help. The Organization should not be responsible for meeting the costs of disarmament programmes. Each country or party to a disarmament agreement was first and foremost responsible for addressing its own cost problems. Other members stressed, however, that it would be in the best interest of the "global village" to assist other countries in their disarmament endeavours.

37. Some members welcomed the work planned by UNIDIR on the subject of the costs of disarmament, while others questioned the need for such a study, whose objectives and potential benefits were not clear.

## H. Improving the mandate and functioning of the Advisory Board

### 1. Mandate

38. Board members reaffirmed the seriousness with which they took their task of offering relevant and timely advice on matters within the area of arms limitation and disarmament. It was suggested that the Board take a more

proactive and result-oriented approach by formulating its advice in terms of specific recommendations to the Secretary-General. The Board recognized that its function of giving advice on aspects of studies carried out under the auspices of the United Nations, which was a part of its existing mandate, appeared to have become subsumed under the mandate's advisory aspect. The Board held inconclusive discussions on a formal change in its mandate to reflect the evolution in its work. The wish was nevertheless expressed to keep the matter under review for the future.

39. The Board reaffirmed its role as the Board of Trustees of UNIDIR. It suggested specific ways to strengthen that role, notably by being of assistance to the Director of the Institute in developing its publications programme and in fund-raising.

40. The Board considered improving its function of advising the Secretary-General on the implementation of the United Nations Disarmament Information Programme by extending the base of consultations with non-governmental actors to include other categories of civil society beyond the community of non-governmental organizations (NGOs), such as trade unions and the business sector. Not all members, however, viewed such an approach as practical or realistic.

### 2. Composition

41. The Board suggested that, in future appointments, the Secretary-General should continue to give due regard to the principle of geographic representation, and that an additional effort at gender balance was necessary. Most members felt that the current size of the Board was appropriate.

### 3. Agenda and work

42. All members underlined the need for the Board's future sessions to focus on specific items of concern to deepen reflection on a particular subject. It was suggested that, in order to prepare future sessions better, various members gather together between sessions in order to prepare consideration of specific items. It was also proposed that, if feasible or appropriate, UNIDIR could assist in that preparation.

43. Proposals were made to establish subgroups within the Board on a new agenda for weapons of mass destruction and on small arms. Some members cautioned, however, that subgroups should be of an ad hoc and non-autonomous character, their mandates clearly defined and their composition open-ended. It was also suggested that the Director of UNIDIR could chair the subgroup on a new agenda for weapons of mass destruction.

44. Board members agreed to take more advantage of the new communications potential – electronic or otherwise – to remain in contact with each other, the Chairman, the Department for Disarmament Affairs and UNIDIR with a view to sharing their opinions on important developments relevant to the mandate of the Board.

45. It was suggested once again that the United Nations take advantage of the disarmament expertise of Board members and request them, as appropriate, to serve on various United Nations missions and assignments. Members also agreed that they could serve as links between the Department for Disarmament Affairs and academic institutions or other organizations.

#### 4. Sessions of the Board

46. The Board reaffirmed that, to be effective, it was best to meet twice a year. Those sessions could be of three days' duration, but some flexibility was called for in that respect, some members arguing for sessions of a full working week. Although the Board agreed that it was appropriate to hold one meeting in New York, some members underlined the importance of holding the other meeting in Geneva, where UNIDIR had its offices. In addition, to foster focused discussions, the Board agreed that it could meet in an informal residential-type environment at little, if any, additional cost to the United Nations. It also agreed that it could meet in the States of any of its members, if invited to do so.

## II. Meeting with representatives of the Special NGO Committee on Disarmament (Geneva) and the NGO Committee on Disarmament (New York)

47. As its thirtieth session, the Board met with representatives of the Special NGO Committee on Disarmament (Geneva) to discuss their concerns. The Committee representatives welcomed the upgrading of disarmament in the United Nations Secretariat and looked forward to forging new ways to collaborate with the re-established Department for Disarmament Affairs in all its substantive areas, and in "marketing" disarmament to the public. They pointed out that a clear illustration of the growing importance of civil society in the international arena had been the Ottawa process on anti-personnel landmines. An area ripe for greater collaboration, where various NGO actors could be of great assistance, was that of curbing small

arms. The NGO representatives registered with the Board their deep concern at the impasse in nuclear disarmament negotiations. They stressed that Abolition 2000, an NGO with over 1,000 participating organizations, would be working tirelessly towards the goal of eliminating nuclear weapons. They also expressed appreciation for the enhanced mechanisms for NGO participation in the preparatory process for the next review of the Non-Proliferation Treaty.

48. At the thirty-first session, officials of the NGO Committee on Disarmament (New York) selected Mr. Jonathan Schell, author of *The Gift of Time*, to address the Board on their behalf. Mr. Schell stressed that the nuclear abolitionist movement in civil society was growing steadily among civil, religious and professional groups. In addition, there existed a real possibility that the political will for definitive action on total nuclear disarmament might be gathering momentum at the governmental level. He emphasized that the NGO community condemned the tests by India and Pakistan, but, at the same time, underscored the responsibility of the nuclear-weapon States to declare their commitment to nuclear disarmament and to take concrete measures now that the cold war was over and there was no longer an enemy.

## III. Future work of the Board

49. Several suggestions were made for the future work of the Board. The more focused format adopted at the thirty-first session was welcomed. Members expressed appreciation for the specific questions posed by the Under-Secretary-General, which helped the Board to arrive at sounder recommendations for the Secretary-General's consideration. It was suggested that questions could be presented to the members well in advance of the meetings. The Board considered that the discussions at that session were also more concentrated because of the preparation of papers on special topics. However, it believed that the number of topics should be kept reasonably low on future agendas to allow time for more in-depth deliberation. The Board also reiterated that, on certain highly specialized subjects, such as new technologies, it would like to be briefed by recognized experts in order to make its recommendations more pertinent.

50. The Secretary-General wishes to place on record his gratitude to the members of the Board for the lively exchange of views that took place in Geneva and for the suggestions and recommendations conveyed to him.

## Annex

## Members of the Advisory Board on Disarmament Matters

Mr. Munir **Akram**<sup>a b</sup>  
Ambassador  
Permanent Representative of Pakistan to the  
United Nations Office at Geneva

Mr. Serge Raymond **Bale**<sup>a</sup>  
Ambassador  
Under-Secretary-General  
Minister of Foreign Affairs and Cooperation  
Brazzaville, Republic of the Congo

Mr. Hanan **Bar-On**<sup>a b</sup>  
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Senior Adviser to the President  
Weizmann Institute of Science  
Rehovot, Israel

Ms. Thérèse **Delpech**<sup>a b</sup>  
Director for Strategic Affairs  
Atomic Energy Commission  
Paris

Mr. Mitsuro **Donowaki**<sup>a b</sup>  
Ambassador  
Arms Control and Disarmament Division  
Ministry of Foreign Affairs  
Tokyo

Col. Tshinga Judge **Dube** (Ret.)<sup>a b</sup>  
General Manager  
Zimbabwe Defence Industries (Pvt) Ltd.  
Harare

Mr. André **Erdős**<sup>a b</sup>  
(Chairman of the 30th and 31st sessions)  
Ambassador Extraordinary and Plenipotentiary  
Permanent Mission of the Republic of Hungary  
to the United Nations  
New York

Mr. Andelfo J. **García**<sup>a b</sup>  
Ambassador  
Deputy Permanent Representative  
Republic of Colombia to the United Nations  
New York

Mr. Curt **Gasteyger**<sup>a b</sup>  
Professor emeritus, The Graduate Institute  
of International Studies  
Director, Programme for Strategic and  
International Security Studies  
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Mr. Peter **Goosen**<sup>a</sup>  
Minister  
Deputy Permanent Representative  
Republic of South Africa to the Conference on  
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Brig. Gen. (Ret.) Henny J. van der **Graaf**<sup>a b</sup>  
Director, Center for Arms Control and  
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Mr. Josef **Holik**<sup>a b</sup>  
Ambassador  
Addis Ababa

Mr. Oumirseric **Kasenov**<sup>a b</sup>  
Vice-Rector, Kainar University  
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Mr. Yuri P. **Kliukin**<sup>a b</sup>  
Deputy Director  
Department for Security and Disarmament Affairs  
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Mr. Natarajan **Krishnan**<sup>a b</sup>  
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Mr. Celso **Lafer**<sup>a</sup>  
Ambassador and Permanent Representative of  
Brazil to the United Nations Office at Geneva  
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Mr. Sverre **Lodgaard**<sup>a b</sup>  
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Ms. Wangari **Maathai**<sup>a b</sup>  
 Coordinator  
 The Green Belt Movement  
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Mr. William C. **Potter**<sup>b \*</sup>  
 Professor and Director of the  
 Center for Nonproliferation Studies  
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Mr. **Sha Zukang**<sup>a b</sup>  
 Director-General, Department of  
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Mr. Mohamed I. **Shaker**<sup>a b</sup>  
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Mr. John **Simpson**<sup>a b</sup>  
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Ms. Patricia **Lewis**<sup>a b</sup>  
 Director  
 United Nations Institute for Disarmament Research  
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#### *Notes*

<sup>a</sup> Participated in the thirtieth session, 16–18 March 1998.

<sup>b</sup> Participated in the thirty-first session, 29 June–1 July 1998.

\* Appointed Member of the Board on 1 May 1998.



## General Assembly

Distr.: General  
10 August 1998

Original: English

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### Fifty-third session

Item 101 of the provisional agenda\*

### Implementation of the First United Nations Decade for the Eradication of Poverty (1997–2006)

## Role of microcredit in the eradication of poverty

### Report of the Secretary-General

#### *Summary*

The present report has been prepared in response to a request contained in General Assembly resolution 52/194 of 18 December 1997. This is the first time the Secretary-General has been requested to prepare a report on the question of microcredit and the eradication of poverty. The prominence given to the matter reflects the recent success of small-scale lending programmes such as the Grameen Bank of Bangladesh. These rely on lending (usually a few hundred dollars) to small enterprises in agriculture, distribution, crafts, trading and similar activities. The participatory nature of these projects, together with the emphasis on women entrepreneurs and employment creation, have raised hopes of reducing poverty through this approach.

The present report surveys current experience and highlights the strengths and weaknesses of the microcredit approach, including the administrative difficulties and limited linkages with other services for the poor. The report also contains suggestions for strengthening operations, and makes a particular plea for ensuring that microcredit projects are established in a broader context of support to the small enterprise sector. Responsibilities of donor countries in this regard are emphasized.

Finally, the report highlights the activities of the United Nations system and non-governmental organizations in support of microcredit, giving special emphasis to the World Bank-led Consultative Group to Assist the Poorest.

\* A/53/150.



## Contents

|                                                                         | <i>Paragraphs</i> | <i>Page</i> |
|-------------------------------------------------------------------------|-------------------|-------------|
| I. Introduction .....                                                   | 1-3               | 3           |
| II. Role of microcredit in poverty eradication .....                    | 4-40              | 3           |
| A. Microcredit and poverty eradication .....                            | 5-7               | 3           |
| B. Characteristics and recent successes of microcredit programmes ..... | 8-25              | 4           |
| C. Recent developments of international institutions .....              | 26-31             | 7           |
| D. Towards stronger support to small enterprises .....                  | 32-40             | 7           |
| III. International support to microcredit lending .....                 | 41-61             | 8           |
| A. United Nations .....                                                 | 42-52             | 8           |
| B. United Nations funds and programmes .....                            | 53-56             | 10          |
| C. Specialized agencies of the United Nations .....                     | 57-61             | 12          |

## I. Introduction

1. The objective of the First United Nations Decade for the Eradication of Poverty (1997–2006), proclaimed by the General Assembly in its resolution 50/107 of 20 December 1995, is to achieve the goal of eradicating absolute poverty through national action and international cooperation. Progress on the anti-poverty front was last reported to the General Assembly in the report of the Secretary-General entitled "Observance of the International Year for the Eradication of Poverty (1996) and recommendations for the rest of the Decade" (A/52/573). An updated report on the Decade has been prepared for the current session.

2. The General Assembly, in its resolution 52/194 of 18 December 1997, noted that, in many countries microcredit programmes have proved to be an effective tool in freeing people from poverty and have helped to increase their participation in the economic and political processes of society. Among other provisions, the Assembly called upon the relevant organs, organizations and bodies of the United Nations system, in particular its funds and programmes and the regional commissions, as well as relevant international and regional financial institutions and donor agencies involved in the eradication of poverty, to explore including the microcredit approach in their programmes as a tool for the eradication of poverty. The Assembly requested the Secretary-General, in collaboration with relevant organizations of the United Nations system, including funds and programmes and the World Bank, to submit to it at its fifty-third session a report on the role of microcredit in the eradication of poverty.

3. The World Summit for Social Development, held in Copenhagen in March 1995, also underlined the importance of improving access to credit for small rural or urban producers, landless farmers and other people with low or no income, with special attention to the needs of women and disadvantaged and vulnerable groups. Governments were called upon to review national legal, regulatory and institutional frameworks that restrict the access of people living in poverty, especially women, to credit on reasonable terms; to promoting realistic targets for access to affordable credit, providing incentives for improving access to and strengthening the capacity of organized credit systems to deliver credit and related services to people living in poverty and vulnerable groups; and to expanding financial networks, building on existing networks, promoting attractive opportunities for savings and ensuring equitable access to credit at the local level.<sup>1</sup>

## II. Role of microcredit in poverty eradication

4. This is the first time that the Secretary-General has been requested to report to the General Assembly on the subject of microcredit. In the broader context of the international fight against poverty, the paper highlights the strengths and weaknesses of the microlending approach, from which some conclusions about the future course of action are drawn. The report, as requested by the General Assembly, provides information from United Nations funds, programmes and agencies on their actions, especially in the field.

### A. Microcredit and poverty eradication

5. Since the World Summit for Social Development the priority given to poverty eradication has grown. As stated in the previous report of the Secretary-General on the eradication of poverty (A/52/573), it is now broadly accepted that robust economic growth that is labour-intensive and equitable, combined with larger outlays of social expenditures, especially directed towards the poor (now estimated at 1.3 billion people), are a winning combination in the fight against poverty.

6. Several factors have led to increased interest in microcredit in promoting growth with greater equity. There has been a growth in the recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit. In addition, the value of the role of non-governmental organizations in development is receiving more attention.

7. It is in that context that microcredit has recently assumed a certain degree of prominence. It is based on the recognition that the latent capacity of the poor for entrepreneurship would be encouraged with the availability of small-scale loans and would introduce them to the small-enterprise sector. This could allow them to be more self-reliant, create employment opportunities, and, not least, engage women in economically productive activities. Currently, there are estimated to be about 3,000 microfinance institutions in developing countries. These institutions also help create deeper and more widespread financial markets in those countries.

## B. Characteristics and recent successes of microcredit programmes

8. Informal and small-scale lending arrangements have long existed in many parts of the world, especially in the rural areas, and they still survive. Good examples are schemes in Ghana, Kenya, Malawi and Nigeria ("merry-go-rounds", "esusus" etc.). They provide the rural population with access to savings within the local area and with a certain cushion against economic fluctuations, and they encourage a cooperative and community feeling. The groups formed provide joint collateral and serve as instruments for spreading valuable information that is useful for economic and social progress.

9. All economies rely upon the financial intermediary function to transfer resources from savers to investors. In market economies, this function is performed by commercial banks and the capital markets. More widespread financial intermediation, as well as increasing depth and variety, are a hallmark of advancing development. But in many developing countries, capital markets are still at a rudimentary stage, and commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. The poor would borrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs that would be disproportionate to the amount of lending. A study by the International Fund for Agricultural Development (IFAD) has confirmed that complicated loan procedures and paperwork, combined with a lack of accounting experience, limit poor people's access to formal sources of credit. Other reports cite the fact that commercial lenders in rural areas prefer to deal mainly with large-scale farmers.

10. The absence of commercial banks has led to non-conventional forms of lending. The recent prominence given to microcredit owes much to the success of a relatively few microcredit programmes and their increasing scale. The Grameen Bank of Bangladesh, the most prominent of the successes, now reaches over 2 million people, with cumulative lending of about \$2.1 billion. Similar successful examples are known in Latin America (e.g., Banco Solidario in Bolivia), less so in Africa (the Kenya Rural Enterprise Programme is a good example). Progress has also been recorded in several transition economies, mixed in some cases. Such institutions have not only achieved a degree of success, but they have also managed to attract donor support and press attention.

11. These schemes are characterized by relatively small loans, a few hundred dollars at most. The repayment period

is relatively short, about a year or so. Women are a major beneficiary of their activities, and the destination of the funds primarily includes agriculture, distribution, trading, small craft and processing industries. The administrative structure is generally light and the entire process is participatory in nature. The impact of microcredit lending varies widely between rural areas and urban areas.

12. In many developing countries, overall interest rates are relatively high to begin with, so that rates charged by microlending schemes are quite high when the risk premium is added. Many of these micro-institutions claim a high rate of repayment. This is attributable to the informal participatory structures, which create an atmosphere in which debtors respect their obligations. While this phenomenon is certainly true of the better-run institutions, it is not possible to verify whether this is a universal feature. There is little by way of "global" research in this area, even though the literature on microcredit has proliferated in recent years.

13. It should be noted that although a large number of studies undertaken so far on the impact of microcredit programmes on household income show that participants of such programmes usually have higher and more stable incomes than they did before they joined the programmes, some practitioners still have reservations about the findings of those studies. Moreover, not many microcredit programmes can afford to undertake impact assessments because they are generally expensive and time-consuming. There are serious disagreements among experts on the validity of methodologies used in some of the published studies. In some cases, even the more rigorous studies have produced inconclusive results. Some studies show that there are limits to the use of credit as an instrument for poverty eradication, including difficulties in identifying the poor and targeting credit to reach the poorest of the poor. Added to this is the fact that many people, especially the poorest of the poor, are usually not in a position to undertake an economic activity, partly because they lack business skills and even the motivation for business.

14. Furthermore, it is not clear if the extent to which microcredit has spread, or can potentially spread, can make a major dent in global poverty. The actual use of this kind of lending, so far at least, is rather modest: the overall portfolio of the World Bank, for example, is only \$218 million. In recent international meetings, it has been stated that a target to reach 100 million families by the year 2005 would require an additional annual outlay of about \$2.5 billion. This should be compared to the total gross domestic product (GDP) of all developing countries, which is now

about \$6 trillion. A certain sense of proportion regarding microcredit would seem to be in order.

15. In addition, the administrative structures governing these institutions are commonly either fragile or rudimentary, and often involve large transaction costs. A study by the Organisation for Economic Cooperation and Development (OECD), for example, found that many specialized agricultural institutions were not designed to serve as financial intermediaries. The success of financial intermediation at any time depends significantly on how efficiently the transaction is completed. If the transaction costs, combined with high interest rates, require that the operation in question generate profit margins of the order of 30 to 50 per cent, it is not clear that this would be economically beneficial. It is not surprising that in many microlending operations, trading activity – with quick turnover and large profit margins – dominates.

16. In many cases, microcredit programmes have been stand-alone operations. There is now considerable consensus that lending to the poor can succeed provided it is accompanied by other services, especially training, information and access to land. An OECD study, for example, emphasized that credit needs to be supplemented with access to land and appropriate technology. But such activities require strong support from the public sector. In some of the lowest-income countries, lack of access to land is the most critical single cause of rural poverty, which dominates the poverty situation in those countries. Yet, few countries have substantial land reform programmes.

17. Moreover, in the proliferation of microlending institutions, non-governmental organizations and foreign donors have played an increasing role. Non-governmental organizations vary in quality and strength. The best results are produced, research shows, when developing country Governments and non-governmental organizations work hand in hand. While donor participation can be positive, it should be noted that total official development assistance (ODA) has declined in recent years.

#### Recent developments

18. Over the past decade, microfinance institutions have adopted innovative ways of providing credit and savings services to the entrepreneurial poor. Two approaches have been advocated on the role of credit in poverty reduction. While supporters of the income-generation approach maintain that credit should be provided mainly to the entrepreneurial poor to enable them to finance specific private income-generating activities to increase their revenues, proponents of the so-called new minimalist

approach argue that credit programmes would still be helping the poor fight poverty by giving credit to any poor person who is able to repay a loan without dictating to that person how and on what the loan should be used. Some studies have pointed out that the problem of the non-productive use of credit, as advocated by the minimalist approach, lies in the fact that by consuming rather than investing their loans, the actions of such borrowers, if imitated by other poor people, could produce a negative impact on the future growth of microcredit.

19. Several microfinance institutions have succeeded in reaching the poorest of the poor by devising innovative strategies. These include the provision of small loans to poor people, especially in rural areas, at full-cost interest rates, without collateral, that are repayable in frequent instalments. Borrowers are organized into groups, which reduces the risk of default. These are also effective mechanisms through which to disseminate valuable information on ways to improve the health, legal rights, sanitation and other relevant concerns of the poor. Above all, many microcredit programmes have targeted one of the most vulnerable groups in society – women who live in households that own little or no assets. By providing opportunities for self-employment, many studies have concluded that these programmes have significantly increased women's security, autonomy, self-confidence and status within the household.

#### Asia

20. Microlending has progressed to the greatest extent in the Asian region. An innovative approach that has been used successfully by Grameen Bank's credit-delivery system is "peer-group monitoring" to reduce lending risk, although some studies have suggested that the reason for the Grameen Bank's high repayment rates is also partly due to the practice of weekly public meetings – at which attendance is compulsory – for the repayment of loan instalments and the collection of savings. It is reported that the meetings reinforce a culture of discipline, routine repayments and staff accountability. Not all microfinance institutions use peer-group monitoring. Other institutions such as the Bank Rakyat of Indonesia, which serves 2.5 million clients and 12 million small savers, rely on character references and locally recruited lending agents in place of physical collateral.

21. Thailand's Bank of Agriculture and Agricultural Cooperatives serves approximately 1 million micro-borrowers and 3.6 million micro-savers. Newcomers such as the Association for Social Advancement of Bangladesh, with half a million clients, and the People's Credit Funds of Viet Nam, with more than 200,000 members or clients, are

other examples of the potential for growth in the industry. Other institutions such as the Association of Cambodia Local Economic Development Agencies, Buro-Tangail of Bangladesh, the Self-Employed Women's Association Bank of India, and Amanah Ikhtiar Malaysia are also reported to be making good progress.

22. Various institutions are involved in the delivery of microfinance services. They include formal commercial banks, rural banks, cooperative institutions, credit unions and non-governmental organizations. Their methods of doing business range from Grameen Bank-style solidarity groups and institutions dealing with individual clients to self-managed self-help groups. Reports indicate that some institutions have gone beyond credit to offer insurance and other financial services. Both the Grameen Bank and the Bangladesh Rural Advancement Committee offer non-financial services, such as retail outlet facilities for products of their clients.

#### Latin America

23. In Latin America, Acción Internacional, a non-profit development agency, and its affiliates was reported to have disbursed in the past five years \$1 billion in loans to poor microentrepreneurs. Its first-time loans are between \$100 and \$200, and the overall repayment rate is above 98 per cent. Its network of 19 affiliates in Latin America and North America provides \$300 million a year in loans to poor entrepreneurs (56 per cent of whom are women). Since 1987, Acción's network has grown from 13,000 to more than 285,000 active borrower clients. The six largest affiliates now provide \$1 million per month in loans. Banco Solidario of Bolivia, which has grown from a credit-providing non-governmental organization to a fully licensed commercial bank, provides financial services to 67,000 people, more than one half of the total number of clients in the entire Bolivian banking system. The Association for the Development of Micro-Enterprises of the Dominican Republic and Acción Comunitaria del Peru are reported to have achieved sustainability.

#### Africa

24. In West Africa, where microfinance institutions are still in their infancy, a World Bank case study of nine microfinance programmes – the Pride, Crédit rural and Crédit mutuel de Guinée; Crédit mutuel du Sénégal and Village Banks Nganda of Senegal; Réseau des caisses populaires and Sahel Action Project de promotion du petit crédit rural of Burkina Faso; and Caisses villageoises du pays dogon and Kafo Jiginew of Mali – concluded that all

nine of these programmes are very much in the mainstream of best practice in the field of microfinance. In terms of sustainable lending to microentrepreneurs, the study gave high marks to the programmes on the following basis: all nine programmes are located near their clients and in the largest catchment areas possible; they use lending technologies that are simple, well-tailored to the cultural environment and inexpensive for both lender and client; they have employed effective techniques for obtaining high repayment rates; most include savings, which meet a critical need of many people, and they price their loans far above commercial lending rates, though not at full cost recovery.

25. A recent study of 11 major microenterprise finance programmes – Agence de crédit pour l'entreprise privée of Senegal, Asociación Dominicana para el Desarrollo de la Mujer of the Dominican Republic, Banco Solidario of Bolivia, Badan Kredit Desa, Bank Rakyat Indonesia and Lembaga Perkreditan Desas of Indonesia, Bankin Raya Karkara of the Niger, Corporación de Acción Solidaria of Colombia, Fundación Integral Campesina of Costa Rica, Grameen Bank of Bangladesh, and the Kenya Rural Enterprise Programme – showed that 10 of the programmes were operationally efficient. Five institutions were fully profitable, generating inflation-adjusted positive returns on assets. It was reported that, in 1993, the Agence de crédit pour l'entreprises privée of Senegal, Banco Solidario of Bolivia and Lembaga Perkreditan Desas of Indonesia had covered 100, 103 and 137 per cent of their costs, respectively. In view of the growing popularity of microfinance institutions, some of which now explore the possibility of deposit mobilization or leverage commercial capital, it is reported that bank regulators in such countries as Bolivia, Ghana, Kenya and Peru, and other countries, are creating laws or special regulations for this new breed of institutions. In Bolivia, it is reported that Banco Solidario, a private commercial microenterprise bank, is regulated by the Superintendency of Banks, with the same financial and reporting requirements as traditional banks, but with simpler loan documentation and risk classification rules. In the case of Bolivia, which seeks to encourage new microfinancial institutions, it is reported that the Government has begun licensing a new class of intermediaries, known as private financial funds, subject to the same solvency and reserve requirements as banks, but with lower minimal capital requirements.

## C. Recent developments of international institutions

26. One of the outcomes of recent discussion has indicated that a more coordinated and concerted international effort is required if microcredit is to spread and succeed on the scale that expectations now require. It is with that perspective in mind that the World Bank has led the process of international coordination primarily by establishing the Consultative Group to Assist the Poorest (CGAP), which brings together a number of western donor countries and international agencies. The Group has ancillary structures which ensure that non-governmental organizations and borrowers in general are consulted.

27. CGAP, which comprises 25 members, including United Nations bodies, is a multi-donor effort to address the problems facing microfinancing. The most important of these are lack of access to information, the measurement of loan delinquency, setting of interest rates, designing lending procedures and developing business projects. The objective of CGAP is to foster good donor practices, including performance standards.

28. With regard to the level of funding to microcredit institutions, in its first two-and-a-half years, CGAP provided about \$18 million in grants to microfinance institutions and also committed \$400 million in the past three years to microfinance activities. These are relatively modest amounts. Grants have been made directly to institutions and networks of practitioners. Eligibility criteria have included the following: (a) institutions must serve more than 3,000 very poor clients, of which at least 50 per cent must be women; (b) institutions must be operationally self-sufficient and on the path to financial self-sufficiency; and (c) institutions must be on the path to mobilizing domestic commercial resources.

29. An important positive development from the CGAP process is that success stories and their characteristics are now much better known. To spread these best microcredit practices to different parts of the world – often under vastly varying conditions – is now the central challenge facing the international community and the developing countries.

30. Within the international community, many United Nations organs have now started to support microcredits, especially under the leadership of the United Nations Development Programme (UNDP). The provision of actual financial resources is rather limited; instead, United Nations bodies have emphasized capacity-building and institutional strengthening, training and consultations to spread best practices. Under the provisions of General Assembly

resolution 52/194, all United Nations organs were requested to provide information on their activities; this information is contained in chapter III below.

31. It should be borne in mind that total world ODA is diminishing, and resources for United Nations bodies are under special strain. Therefore, a better use of the available resources has become a more pressing imperative. It is important that resources are channelled to sectors that have potential, especially agriculture, infrastructure and education. It would be a pity if experimentation with new forms of development activities were to lead to a squandering of aid.

## D. Towards stronger support to small enterprises

32. The discussion above suggests that if microcredit is to play a strong role in development, certain requirements need to be fulfilled. The most crucial requirement is to perceive microcredit lending as part of a comprehensive programme of support to the small enterprise sector. According to CGAP estimates, the sector already employs 500 million of the poor; it constitutes an active base for strengthening the private sector in a large number of developing countries. This would entail Governments of developing countries formulating plans and programmes to support small enterprises in general, of which microcredit should be an integral part. Furthermore, the regulatory framework should be receptive to small enterprises. Many micro-borrowers have complained of this particular shortcoming in developing countries.

33. There are many examples of successful interventions in the OECD countries in favour of small enterprises, the foremost among them being the United States Small Business Administration. The Small Business Administration is a rather remarkable organization that is fully backed by the Government, operates through the private sector and provides the small business sector with a wide array of support services, including information and training. (Of course, commercial rates of interest prevail in the programme.)

34. Developing countries could benefit by instituting similar comprehensive programmes, eventually involving the private sector and, where applicable, efficient non-governmental organizations. The United Nations could provide more robust technical assistance programmes in that direction. There is a delicate balance to be struck between getting the poor eventually into the market economy and

commercial lending rates on the one hand, and the importance of providing low-cost assistance to them at the initial stage of their entrepreneurship.

35. Targeting is a particularly thorny topic. There have been allegations that in fact the very poor are so weak as not to benefit from microlending, and that it is the "better off poor" that benefit. While all the poor need to be included in the programmes, the shortage of funds impels organizers to make special efforts to reach the less well-off among the poor. Microcredit should be viewed as complementary to the provision of basic services like education, housing, health and nutrition. The latter are indispensable in the fight against poverty.

36. A crucial part of any future effort should be to strengthen the administrative structures of existing microcredit institutions, rather than letting multiple and competing institutions proliferate. It is possible that economies of scale are important in microlending. Dynamic leadership and paid management staff are probably crucial. The provision of information on available services to the poor is particularly essential. This is not at present the case, even in some advanced developing countries. Information on services for the poor is rarely made readily available.

37. In that context, the long-term financial sustainability of microcredit operations deserves particular attention. In the more successful schemes, repayment rates are high, but this is not so with many operations that do not have a high profile. In the absence of long-term sustainability, microcredit operations become a welfare or charity operation. While the latter have their own place in development in some circumstances, they should not characterize microcredit institutions.

38. Probably the single most important element in ensuring long-term sustainability of these operations is to include in them the savings mobilization function. This is not always the case at the present time. The operation that lends to the poor should also cater to their savings needs. In many developing countries, savings habits are quite widespread, but the institutional structures do not fully cater to them. The possibility of combining savings and lending operations in some form of credit union organization should always be explored. Once again, the credit union movements in the OECD countries could be emulated by developing countries. International organizations could provide technical assistance in the setting up of frameworks for credit unions and in strengthening their management.

39. Donor countries have a special responsibility to ensure that financial intermediation programmes are soundly based, operate through solid local entities and involve the public

sector and that monitoring is an important part of the process. To some extent, the recent prominence given to those operations is donor-driven; the responsibility on the donors is subsequently heavy. It is particularly important that donor funds, whether grants or loans, not be perceived in recipient countries as simple transfers.

40. Coordination among the donor countries has in fact been perceived to be weak in many settings, thus giving rise to duplicative projects and fragmentation of available institutional capability in the developing countries. The CGAP process should be greatly strengthened and directed to better donor coordination. The United Nations system can help in that process, especially at the field level. The United Nations system also needs to spread a more realistic notion of the potential of microcredit approaches, and to put them in the broader perspective of the fight to eradicate poverty.

### III. International support to microcredit lending

41. The present section contains a summary of activities of the United Nations system.

#### A. United Nations

42. In the United Nations Secretariat, the responsibility for assisting in the implementation of the follow-up to the World Summit for Social Development and the servicing of the intergovernmental bodies involved rests with the Department of Economic and Social Affairs. The Department is also the focal point for the First United Nations Decade for the Eradication of Poverty. Given its mandate, special attention is given to Africa and to the advancement of women.

43. A one-day forum, entitled "Africa Advocacy Forum: Microcredit and Poverty Eradication", was organized on 6 February 1997 by the Office of the Special Coordinator for Africa and the Least Developed Countries and co-sponsored by the former Department for Policy Coordination and Sustainable Development and Department for Development Support and Management Services and several United Nations agencies. The agenda of the forum focused on five topics related to important aspects of a strategy for poverty eradication. These included the impact of microcredit on food security; women's economic empowerment; the provision of basic social services; employment/self-employment; and traditional banking systems.

44. In July 1997, the Office of the Special Coordinator for Africa and the Least Developed Countries, together with the Governments of Japan and Thailand and UNDP, organized the Asia-Africa Forum on the Economic Empowerment of Women, which was held at Bangkok. The forum adopted a framework for action, which includes a recommendation for the promotion of women's economic empowerment through improved access to credit and finance, and through the promotion of microfinancing schemes, including group financing without collateral, and savings and credit facilities.

45. The Office of the Special Coordinator for Africa and the Least Developed Countries also participated in the Sixth International Women Entrepreneurs Conference, held at Accra from 16 to 19 September 1997. The theme of the conference was "Technology and communication: impact on women entrepreneurs in the global economy". The Office will also be participating in the Second Tokyo International Conference on African Development, which will deal with the issue of rationalizing the microcredit concept in Africa and developing a model that could be applied throughout the African region. With regard to publications, the Office carried out a study on poverty eradication in 14 selected countries, describing experiences of innovative efforts in addressing poverty and underdevelopment. The study showed how microcredit schemes can improve community development.

46. Another study on microfinance is being undertaken by the Division of Public Economics and Public Administration. The study will explore various facets of microfinance institutions, including issues related to the financial dynamics of microenterprises and what distinguishes microfinance from commercial finance.

#### Regional commissions

47. As a follow-up to the World Summit for Social Development, and in response to General Assembly resolution 52/194 on the role of microcredit in the eradication of poverty, the regional commissions are undertaking a number of initiatives in the area of microfinance. In the case of the Economic Commission for Africa (ECA), the main objective of its microfinance work programme is to promote microfinancing as a strategic tool for sustaining the operations of microenterprises, including the informal sector, by creating awareness on its role to private development and advising member States on how to articulate policies, strategies and mechanisms for encouraging microcredit and required financial intermediation. In this regard, in 1997, ECA carried out a study on reconciling indigenous informal and formal

microfinancing systems and practices in Africa, with recommendations to Governments, financial institutions, non-governmental organizations, the private sector and grass-roots organizations. The work programme for 1998-1999 also includes a study on the role of microfinancing on the sustainable development of small and medium-sized enterprises. Since 1992, the Commission has been implementing a pilot project in Ethiopia and Zambia on the promotion of the informal sector on the economic development of Africa. It is expected that the project will next be implemented in Côte d'Ivoire and Ghana. ECA plans in the coming years to disseminate the results of the pilot project among other African countries by publishing a manual on the tested participatory approach, holding subregional workshops, and reinforcing advisory services to ECA member States. In this regard, ECA also intends to take measures to strengthen cooperation with bilateral and multilateral partners.

48. Like other regional commissions, the Economic and Social Commission for Asia and the Pacific (ESCAP) provides a mechanism for exchange of experience on microcredit facilities among interested countries and a way of drawing up best practices and modalities of assessment and of proposing new approaches. In preparation for a regional consultation on strengthening of rural financial institutions, ESCAP undertook five country studies (Bhutan, Indonesia, Nepal, Philippines and Viet Nam) during the second half of 1997. The objective of the studies and consultations was to examine critically the efficiency of non-formal credit organizations in providing credit to the rural poor, for microfinance activities, and to suggest policy alternatives for reaching the large numbers of credit-needy rural poor households within the next decade.

49. A multi-year project on enhancing the access of women to formal credit and financial institutions in the least developed countries has been completed. The project involved a series of country case studies and national workshops, a regional seminar and two publications on improving the access of women to formal credit and financial institutions. The intention of the project was to evaluate the potential of the major constraints faced by women in obtaining credit from formal financial institutions such as banks, to identify special features of successful formal credit programmes and to formulate recommendations. As a result of the project, there is now much more awareness among central banks and major financial institutions in the six least developed countries of the Asian region to the problems faced by women.

50. The Economic Commission for Latin America and the Caribbean (ECLAC) carried out a project on small and

medium-sized enterprise financing in seven countries (Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador and Mexico). The project showed that current approaches to small business finance were based on the experience of previous policies that focused on credit subsidies and had meagre results. New approaches to small scale enterprises were part of market-oriented policies. These approaches have frequently proposed ambitious goals regarding access of smaller businesses to financing technical training and technical and financial assistance. However, actual implementation of those measures is still at an experimental stage.

51. The Economic and Social Commission for Western Asia (ESCWA) has a number of activities for promoting entrepreneurship in small enterprises, including the provision of assistance to countries and institutions of the region. One of its major activities is providing support to start up business and building national training capabilities. A number of "start your own business" courses for potential entrepreneurs, and potential trainers, in cooperation with local institutions, have been conducted since 1990. To that effect, ESCWA produced a trainers manual in Arabic on starting your own business. An understanding was reached early in 1996 between ESCWA and the United Nations Development Fund for Women (UNIFEM), in which ESCWA provided technical assistance to a UNIFEM project entitled "Strengthening institutions for the development of women enterprises" in Jordan, Lebanon, the Syrian Arab Republic and the Palestinian territories. ESCWA assistance to the UNIFEM project was in the areas of entrepreneurship training and business counselling, information and business incubators. ESCWA, in cooperation with UNIFEM and the Development Employment Fund of Jordan, organized the simulation exercises and learning laboratories development camp at Amman from 6 to 11 December 1997. One of the major objectives of the camp was to upgrade trainers' skills in adapting existing training materials and designing new ones to meet the needs of various target groups in urban and rural areas, with emphasis on the poor. Particular consideration was given to the development of microbusinesses. In the programme of work for 1998-1999, ESCWA is expanding its activities on microcredit under the subprogramme on improvement of the quality of life. Focus is given in that subprogramme to the eradication of poverty, with microcredit as one possible tool. The following areas will be covered: the role of income-generating activities in eradicating poverty and improving the standard of living in local communities; the role of the informal sector in community development; the social impact of structural adjustment, with special emphasis on unemployment; and

operational microcredit lending facilities to poor women in rural and urban areas.

52. In assessing the role of microcredit in the economies in transition, the Economic Commission for Europe (ECE) underlined the fact that, although many countries, including the Czech Republic, Hungary, Poland, Slovakia and Slovenia, have recognized the need to develop microenterprises, particularly in areas facing high unemployment rates, entrepreneurs have limited access to sources of finance. The reasons include the following: (a) financial institutions consider it risky to lend to micro and small businesses because of the high failure rate, economic uncertainties and lack of collateral; (b) commercial and credit banks have no experience in dealing with microenterprises, and the high administrative costs involved in processing small loans; (c) lack of transparency in evaluating loans and lack of skills of financial institutions in dealing with microenterprises; (d) in almost all countries of the region, the national clearing systems are poor and outdated and, consequently, the majority of the transactions are made in cash because of uncertainties and delays encountered by the electronic money transfer systems; and (e) lack of reliable data regarding markets. To help overcome these problems, ECE is supporting the following: (a) favourable national policies on microenterprises and microcredit organizations; (b) evaluation of current experiences through surveys and workshops; (c) elaboration of medium-term and long-term capacity-building programmes to create cost-effective and self-sustaining microcredit organizations; and (d) creation of long-term national and international grants and funds to implement national programmes.

## **B. United Nations funds and programmes**

### **1. United Nations Capital Development Fund**

53. Since its creation in 1966, as a capital funding window under the UNDP umbrella, the United Nations Capital Development Fund (UNCDF) has been the channel for UNDP to fund microfinance interventions. It has so far approved more than US\$ 100 million of investment credit activities, the majority being microfinance related, with the balance to small and medium-sized enterprises. At the present time, UNCDF has an active microfinance portfolio of about \$40 million, of which 70 per cent is in Africa, 20 per cent in Asia and 10 per cent in Latin America. UNCDF has implemented microfinance projects through a variety of partners, ranging from state-owned financial institutions to credit unions and non-governmental organizations. It has

also used several financial mechanisms in support of those projects, including grants to fund start-up costs and operational expenses, provision of capital for lending, and guarantee facilities that have been used as incentives for banks to refinance "retailing" microfinance institutions. In 1996, UNCDF published a policy paper entitled "Microfinance and poverty strategies" that underlines both the policy and instruments used by UNCDF in helping restore basic financial intermediation through the provision of credit and savings services, especially in rural areas. In preparation of the Fund's 1999 evaluation by its donors, UNCDF has commissioned a mid-term assessment of its programmes, including local development funds, economic development projects and the microfinance portfolio. Started in November 1997, the portfolio's assessment has been carried out in close cooperation with CGAP. It focuses on seven microfinance projects selected from UNCDF major interventions, of which four are in Africa (Lesotho, Madagascar, Malawi and a regional project in West Africa), two are in Asia (Bhutan and Laos) and one in Latin America (Bolivia).

54. UNCDF has been actively supported by the Special Unit for Microfinance, which was created in September 1997 and given the task of building synergy between the established UNCDF experience in microfinance and the growing demands from the global network of UNDP country offices. The Unit also provides quality technical support to the MicroStart programme, which was launched in February 1997 at the Microcredit Summit held in Washington, D. C., and given the task of helping start-up and fledgling initiatives. The Unit has initiated or supported project formulation exercises in Haiti, Madagascar, Mali, Mauritania and Mozambique, and in the Palestinian territories. It also helped re-engineer the regional microfinance project with the West African Development Bank to improve its impact and sustainability. The Unit also provided key support to the preparation of the portfolio evaluation with CGAP. Finally, it has helped UNCDF with the identification of expertise, the elaboration of standard terms of reference for audit and evaluations and the definition of standard monitoring and impact evaluation tools that will also be used by the MicroStart unit, thereby helping to improve and streamline microfinance practices within UNDP.

## 2. United Nations Children's Fund

55. The United Nations Children's Fund (UNICEF) integrates microcredit into its programmes in countries where lack of access to small loans is identified as an obstacle to the improvement of the situation of women and

children. In those countries, UNICEF works with communities, non-governmental organizations and Governments to (a) stimulate national efforts to expand microcredit for women; (b) strengthen national and local capacities to deliver small loans and basic social services; and (c) monitor and evaluate its support to microcredit to improve its effectiveness and efficiency and contribute to the dissemination of best practices with a view to ensuring sustainable reduction in poverty. In this connection, UNICEF has supported microcredit programmes in such countries as Bangladesh, Benin, Brazil, Cambodia, China, Egypt, Ghana, Guatemala, India, Kenya, Nepal, the United Republic of Tanzania and Viet Nam. Recent evaluations and impact assessments conducted in two countries, Egypt and Viet Nam have shown that microcredit can improve the well-being of the borrowers and that the impact is greatest when credit is combined with support for access to basic social services.

## 3. United Nations Development Fund for Women

56. As part of its core strategy, UNIFEM recognizes the need to provide credit to women as a way of strengthening women's institutions at the grass-roots level. In that connection, UNIFEM has invested in a series of projects in Western Asia to ensure that women's capacities and skills are developed and to enable them to run small-scale businesses successfully. These initiatives include developing business counselling services within national institutions, establishing networks of credit programmes and supporting business skills training sessions on business and financial management for several hundred women entrepreneurs in Gaza, Jordan, Lebanon and the Syrian Arab Republic. Working in partnership with several United Nations agencies and other organizations, UNIFEM has facilitated the creation of women's business networks in a region where women have limited economic power. In the Latin American and Caribbean region, UNIFEM, in association with Acción Internacional, worked to gain private sector support for the launch of gender-sensitive initiatives and helped broker a partnership between Latin American microlending organizations and banks to leverage a \$1.2 million line of credit to support women's microenterprise in Colombia and Chile. In Africa, in association with UNDP and the Special Unit for Technical Cooperation among Developing Countries, UNIFEM brokered the establishment of MICROFIN-Africa, a network of 42 microenterprise non-governmental organizations that deliver small credit to women in 17 countries of sub-Saharan Africa. On the global level, UNIFEM has also facilitated the formation of the International Coalition on Credit, which consists of 32 of the

world's leading microcredit and business non-governmental organizations with more than 200 affiliated organizations.

### **C. Specialized agencies of the United Nations**

#### **1. International Labour Organization**

57. The involvement of the International Labour Organization (ILO) in microfinance reaches back many years, through its activities related to the development of the informal sector, and in particular its promotion of cooperatives, including savings and credit cooperatives. In response to the needs of its constituency – Governments, trade unions and employer organizations – ILO developed international labour norms that define standards for its constituents on how to support entrepreneurial activities of the working poor, formulated norms in technical cooperation to help constituents finetune policies and improve institutional performance, and developed research modalities to help resolve information deficits, influence policy makers and identify best practice. Through its country objective reviews, ILO found that its constituents consider microfinance to be a potentially powerful tool in facing the poverty alleviation challenge, especially through self-employment and micro and small enterprise development. The reviews call on authorities to create a more favourable environment for formal and informal microfinance, the establishment of additional microfinance institutions, and improved access for micro and small enterprises to microfinance services, and to assist women in accessing those opportunities (for example, by using collateral substitutes for loan securitization).

58. ILO conducts research on various aspects of microfinance to fill information deficits, influence policy makers and identify best/good/bad practices. Its ongoing work covers such issues as enterprise creation by the unemployed; the role of microfinance in industrialized countries – an ILO action programme for 1998–1999; the impact of financial sector liberalization on the access of micro and small enterprises to financial services; gender and control over financial resources; the use of collateral substitutes in loan securitization; and strategies to reduce transaction costs in bank lending to micro and small enterprises.

59. With regard to technical cooperation, a recent review of ILO technical cooperation, covering the period 1996–1998, identified 52 projects with a microfinance component. Nineteen of the projects focus exclusively on microfinance, while the rest contain other intervention components. The total budget of the 52 projects is \$67.8

million, with \$6.1 million going into microcredit funds and an estimated \$30.1 million to research and advisory and capacity-building services in the field of microfinance. The projects are located in Africa, Asia and Latin America. ILO expertise is also increasingly in demand in the promotion of sustainable microfinance operations in post-conflict countries such as Cambodia, and the former Yugoslavia and in regions such as Central America and sub-Saharan Africa.

#### **2. World Bank**

60. One reason the original members of CGAP decided to locate the secretariat within the World Bank was to strengthen the Bank's growing microfinance-lending portfolio. CGAP expects the Bank to play a pivotal role in working with Governments to create an enabling business environment for microfinance institutions and making linkages between the overall macroeconomic framework and microfinance. CGAP has formed alliances with World Bank Group entities involved in microfinance, including the Sustainable Banking for the Poor Initiative, the Africa Research Programme and the Rural, Microfinance and Small and Medium-sized Enterprise Thematic Group. Each alliance has generated joint products such as the Microfinance Practical Guide and case studies of microfinance institutions. In terms of World Bank projects with microfinance components, it is reported that, in 1997, there were 21 such projects being developed or in the pipeline in 19 countries, including 13 low-income African countries. In almost every case, CGAP was involved at an early stage, reviewing the choice of financial intermediaries, products and services, capacity-building activities and other characteristics of the planned loan or credit. CGAP has also collaborated on World Bank projects in several countries to leverage the Bank's ability to create enabling policy environments. In the past two years, the CGAP secretariat and the World Bank staff have held technical discussions on more than 40 existing and planned microfinance-lending operations and regional activities. This cooperation has improved the design of many lending operations, resolved operational and technical issues and expedited financial sector reform in a number of countries, including Angola, Argentina, Armenia, Brazil, the Republic of Moldova, Sri Lanka and Viet Nam.

#### **3. International Fund for Agricultural Development**

61. Over the past two decades of providing financial aid, much of it through microcredit programmes for the poorest of the rural poor in developing countries, the International Fund for Agricultural Development (IFAD) firmly believes that the poor are "bankable". Its action plan is based on three

fundamental propositions. The first stems from the Fund's mandate to address rural poverty by recognizing the importance of microfinance as a key empowerment tool in ensuring improvements in incomes and sustainable household food security among the world's poorest families, especially the women of those families. The second recognizes the fact that, while access to credit and savings facilities is crucial, it is usually not enough by itself to ensure the sustainable development of the rural poor, who also need links to an efficient distribution system for their production, including viable roads to market places, access to appropriate technology, technical training, fair prices for inputs and a favourable regulatory climate. Thirdly, rather than providing temporary services for the poor, the main objective of IFAD is to develop viable and financially sustainable rural financial systems, especially for the very poor living in remote areas in many developing countries. While maintaining the prime focus on the poor, IFAD also emphasizes the need to safeguard loan funds, promote sector-wide performance standards and strengthen the provision of non-financial services. At the regional and local levels, IFAD is helping to build a cadre of microfinance technical experts, strengthen training centres and promote sustained linkages to commercial capital, while seeking to ensure a favourable regulatory environment. IFAD is an active member of CGAP and has thus far committed over \$1 billion in financial services and credit to the rural poor, which represents about one quarter of its total lending to date. An estimated 20 million persons have benefited from these services.

#### Notes

<sup>1</sup> See *Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995* (United Nations publication, Sales No. E 96 IV 2).

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